Gulf Opportunity Zone Act (GOZA) of 2005

- The President signed the GOZA on December 21. The Act provides a number of important tax relief and bond-related provisions that will aid in recovery efforts in the state.

Tax-Exempt Private Activity Bonds (Gulf Opportunity Zone Bonds)

- The GOZA gives Louisiana the authority to issue approximately $7.9 billion in tax-exempt private activity bonds, the proceeds of which can be used to finance the cost of qualified private sector projects. This means that qualified businesses can use the state's tax-exempt borrowing authority to borrow money at low interest rates in order to rebuild.

- Projects that can be financed with these bond proceeds include the acquisition, construction and renovation of non-residential (commercial) property, qualified low-income residential rental property, and public utility property located in impacted areas. The Act helps provide the capital that many businesses desperately need to rebuild.

- The $7.9 billion in bonds from the GOZA will be tax-exempt and interest earnings are not subject to the IRS Alternative Minimum Tax, meaning the interest rate will be much lower than private businesses can obtain on their own, and investors will be provided with a better yielding investment. In effect, the GOZA will allow private businesses to borrow money at cheap, tax-exempt rates of interest.

- This is an extraordinarily important financial option for rebuilding. The state will authorize the issuance of the bonds, and a state conduit issuer will issue the bonds on behalf of a private company. The private company receiving the bond proceeds and building the project will be responsible for making principal and interest payments with no liability to the state.

- Businesses interested in applying for tax-exempt private activity bonds can obtain more information and an electronic application for Gulf Opportunity Zone Bonds from the Bond Commission section of the Treasury's website located at www.latreasury.com. A copy of the application should also be sent to the Governor's Office and to the Louisiana Department of Economic Development.

Gulf Tax Credit Bonds

- The GOZA authorizes Louisiana to issue up to $200 million in Gulf Tax Credit Bonds to help local governments pay their bonded indebtedness. Local governments in hurricane-impacted areas have approximately $8 billion outstanding in bonded indebtedness, and around $4.1 billion of this is credit enhanced with bond insurance.

- Local governments desperately need help making their bond payments; if they default every governmental entity in Louisiana, including the state, will be hurt.

- The state would be responsible for paying the principal on Gulf Tax Credit Bonds, and the U.S. government, in effect, would pay the interest by providing bond purchasers with federal income tax credits.

- Proceeds of the bonds must be matched by an equal amount of state funds.

- Gulf Tax Credit Bonds are a cheap source of capital that can be used to establish a revolving loan pool with flexible repayment terms to help local governments avoid defaults on their bonds. A loan pool of $200 million to $400 million would provide sufficient liquidity for the next 12 to 18 months to help avoid local government defaults.

- Gulf Tax Credit Bonds must be general obligation debt and must mature in two years.

Advance Refunding

- The State Bond Commission often advance refunds or refinances general obligation debt when interest rates fall to take advantage of the lower rates, just as consumers often do with their home mortgages when interest rates go down.

- Because interest rates have been falling for the past few years, the state of Louisiana and most units of local government have already advance refunded their bond issues.

- The GOZA gives Louisiana and local governments the authority to advance refund or restructure general obligation debt on a tax-exempt basis a second time for up to $4.5 billion of bonded indebtedness. This was previously prohibited under federal law.

- The benefit of this provision is that even if the state cannot get a significantly lower interest rate through a second refinancing (we already achieved this the first time we refinanced outstanding debt), we can use the refunding to restructure $1.5 billion of debt, extend its maturity and/or eliminate all (or a portion of) debt service for five years.

- Local governments could also take advantage of the GOZA's advance refunding authority to restructure debt and relieve financial pressures.

- By restructuring debt and extending its maturity, the state could free up approximately $1.4 billion in cash flow over the next five years. This money could be used to help local governments, to provide bridge capital for small businesses, to create tax free zones to bring people home, and to pay hurricane-related expenses.

- There is no free lunch, however. By extending its debt, the state would pay more in interest over time. The advance refunding scenario described above would have a negative present value savings of around $-26 million.